



July 23, 2008

**Summary Report:  
Third Party Complaint Regarding Taiway Sports, China**

**Complaint**

On April 22, 2008, the Fair Labor Association (FLA) received a Third Party Complaint filed by Participating Company PUMA regarding Taiway Sports, a factory located in Dongguan Province, China. Taiway Sports is a PUMA supplier. The complaint brought to the FLA's attention allegations from China Labor Watch, a New York-based labor rights organization, regarding noncompliances in the factory with respect to several elements of the FLA Workplace Code of Conduct and compliance benchmarks, including: (1) excessive overtime; (2) failure to pay minimum wage; (3) improper payment of wages; (4) discrimination based on a worker's provincial origin; (5) retaliation against workers for using grievance procedures; (6) improper contracting; (7) poor and unsafe conditions in dormitories; and (8) poor quality of food in canteen.<sup>1</sup>

PUMA requested expedited consideration of the Third Party Complaint and waived its own internal assessment of the situation at Taiway. Instead, PUMA requested that the FLA carry out an assessment of the situation at the factory using either an expert or an FLA-accredited independent external monitor. Thus, the FLA instituted a Third Party Complaint investigation at Step 3 on April 22 and contacted China Labor Watch to obtain further elaboration of the allegations in order to sharpen the terms of reference for an independent investigation. On April 29, the FLA engaged Impactt Ltd.,<sup>2</sup> to conduct such an independent investigation of the allegations.<sup>3</sup>

**Independent Investigation**

Impactt, Ltd. conducted a two-day unannounced investigation at Taiway Sports on May 6-7, 2008. The investigation was conducted by two Chinese-speaking Impactt staff members. It included the following elements: (1) site walk-around; (2) interviews with management, including senior managers, administration manager, HR manager, and

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<sup>1</sup> The China Labor Watch report is available at <http://www.chinalaborwatch.org/Taiway-releaseV2.pdf>

<sup>2</sup> Impactt, Ltd., a consultancy firm specializing in supply chains founded in the UK in 1997, is accredited to monitor the full FLA Workplace Code of Conduct in China.

<sup>3</sup> In a letter to PUMA's CEO dated May 21, 2008, the Executive Director of China Labor Watch stated: "We share PUMA's sentiment that an investigation conducted by another, neutral organization would be useful; we, moreover, welcome a third party evaluation of our own work. We hope that an investigation carried out by PUMA, Taiway and a third party accredited by the FLA would verify our findings."



finance manager, as well as with the trade union chairman; (3) document review; and (4) worker interviews.<sup>4</sup>

Impactt Ltd. produced a 23-page report that was made available to the FLA and to PUMA on June 12, 2008. The report consists of the following sections: (1) introduction; (2) assessment overview; (3) findings and recommendations; (4) conclusions and priorities; and (5) supporting appendices. A summary of the conclusions and priorities follows:

- It is difficult for workers to ask for leave and resignation. The factory should ensure that the leave and resignation procedure is effective, and ensure that workers are genuinely able to take leave and/or resign from their jobs any time.
- No young worker management system exists. The factory must establish a young worker management system, including registration with the local labor authority, regular physical examination, and task and hour limitations.
- The problem of underage workers using the IDs of their siblings, or fake IDs, to enter the factory was raised by management in order to illustrate the problems with age verification. The factory should strengthen the age verification process to ensure all the workers register with their true IDs.
- Some supervisors force workers to extend their working hours during lunch breaks and those hours are not counted and paid.
- The bonus for the workers was decided by supervisors and it is not transparent. To avoid any unfairness, the factory should set up a performance assessment system for the workers and ensure it is always clear to workers and supervisors how bonuses are calculated.
- The overtime regularly exceeds 48 hours per month, with some groups working more than 80 hours per month. Management should analyze the working hour records to identify what efficiency improvements can be made and take steps to reduce overtime hours to the required standard.
- No clear voluntary overtime agreement procedure is available. The factory should set up an effective voluntary overtime agreement procedure to make sure that the workers are not forced to work overtime.
- The factory only buys social insurance for a small percentage of workers and no paid sick leave is provided. The factory should buy social insurance for all the workers and provide paid sick leave for workers.
- The food provided by the factory is acceptable. However, the worker survey results show that 19% of workers are not satisfied with the food. The factory

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<sup>4</sup> According to the report, a total of 54 interviews were conducted, roughly 1.3% of the workforce; 10 of the workers interviewed were male and all were Chinese. Most of the workers are from Henan and Sichuan provinces.



should keep conducting worker questionnaire surveys every month and take action to improve the food quality.

- It is very hot in the dormitory and in the workshop. The factory should install more fans in the dormitory and workshops.
- Some of the managers are very rude; they may need more training in how to manage people.
- All Trade Union representatives should be elected by the workers.

Impactt did not make findings that would corroborate allegations regarding failure to pay minimum wage, improper payment of overtime premiums, discrimination based on workers' provincial origin, retaliation against workers for using grievance procedures, and improper contracting. Therefore, these issues are not included in the corrective action plan given below.

### Corrective Action Plan

Management of Taiway Sports, in conjunction with PUMA, developed the following corrective action plan (CAP) that addresses the key issues identified in the Impactt report. The actions will be verified periodically by the factory and by PUMA; an independent verification of the implementation of the CAP will be conducted after 12 months.

Key Issue	Corrective Plan
It is difficult for workers to ask for leave and resignation. The factory should ensure that the leave and resignation procedure is effective and ensure that workers are genuinely able to take leave and/ or resign from their jobs any time.	We will revise the leave and resignation procedure so that workers can more readily request leave from supervisors and resign through the HR department if their direct supervisors do not act on the resignation within a specified period to be established in the procedures. Training will be provided to workers, supervisors, and managers on the policy and procedures regarding resignation and leave.
Some workers used ID's other than their own to get employment at Taiway. The factory should strengthen the age verification process to ensure that all the workers register with their true IDs.	Factory will develop policy and procedures and train hiring staff on how to screen ID's for authenticity.
No young worker management system exists. The factory must establish a young worker management system, including registration with the local labor authority, regular physical examination, what job and how many hours they can work.	Factory will develop procedures to ensure: <ul style="list-style-type: none"> <li>• Child labor is prohibited and prevented during the recruitment process;</li> <li>• Young workers are identified and registered with the local labor department;</li> <li>• Young workers are tracked at the</li> </ul>

	<p>workplace through proper identification system (color coding for example);</p> <ul style="list-style-type: none"> <li>• Young workers will undergo health inspections every year until they reach the age of 18;</li> <li>• Young workers will not be allowed to work overtime or be assigned to heavy or hazardous jobs.</li> </ul>
Some supervisors force workers to extend their working hours during lunch breaks and those hours are not counted and paid.	<p>Factory will develop policy that only in instances of extreme need, will work be extended during lunch break and then only on a purely voluntary basis, for a few minutes, with pay, and with the lunch break extended accordingly. Managers, supervisors and workers will be briefed on this. Factory will have more strict control on work during breaks and conduct periodic checks to ensure compliance.</p>
The bonus for the workers was decided by supervisors and it is not transparent. To avoid any unfairness, the factory should set up a performance assessment system for the workers and ensure it is always clear to workers and supervisors how bonuses are calculated.	<p>Factory's bonus system is based on the daily performance and effort of each individual worker. Both workers and supervisors are involved in the assessment. We will provide more training to both supervisors and workers regarding the bonus system to make sure that they understand bonus calculation. We will post a sample calculation on the bulletin boards. In addition, workers can raise their concerns or report any abuses of the system through our internal communication channels. Factory will train workers on the complaint procedures and ensure that all complaints are acted on and reply is relayed or posted on the bulletin boards.</p>
The overtime regularly exceeds 48 hours per month, with some groups working more than 80 hours per month during the busy season. Management should analyze the working hour records to identify what efficiency improvements can be made and take steps to reduce overtime hours to the required standard.	<p>Factory has applied the comprehensive working hour system and will track the number of working hours to ensure compliance with the legal standards. Factory has implemented the new production system since April 2008, which ensures weekly working hours are not more than 60. Factory will train all departments for proper coordination to ensure that resources (manpower, materials, etc.) are available at the right time. Managers and supervisors will also be trained to monitor the status of the production of their own</p>

	<p>section and that of the section that supplies them to ensure that production is in accordance with the schedule.</p> <p>[Note: There was no PUMA production in the injection molding workshop, where workers worked more than 300 hours in March 2008.]</p>
No clear voluntary overtime agreement procedure is available. The factory should set up an effective voluntary overtime agreement procedure to make sure that the workers are not forced to work overtime.	<p>Factory has a policy on voluntary overtime work. The workers can sign up one week in advance to better coordinate work but they are free to say no to overtime request. We will continuously provide training to workers, supervisors, and managers on the policy of voluntary overtime work. Workers will also be advised to report cases of forced overtime through the internal communication channels.</p>
Factory only buys social insurance for a small group of workers and no paid sick leave is provided. No maternity insurance was provided to workers. The factory buys a commercial insurance for all workers but the cost of the insurance is split between the workers and factory. Workers pay rmb4.00 each month	<p>We will ensure 100% coverage of workers for workplace injury immediately and provide 50% social insurance according to legal standards within 6 months. We will prepare a time plan to gradually increase the number until all workers will be enrolled in the system. All legally mandated benefits will be provided including paid sick leave and others.</p>
The food provided by the factory is acceptable. However, the worker survey results show that 19% of workers are not satisfied with the food. The factory should keep conducting worker surveys every month and take actions to improve the food quality.	<p>Factory will conduct surveys on food supplied at kitchen and make continuous improvement in the food service at factory canteen.</p>
It is very hot in the dormitory and in the workshop. The factory should install more fans in the dormitory and workshops.	<p>Factory will re-brief its internal HSE team on its responsibility to check workplace conditions periodically to ensure workers are working in safe and healthy conditions. The HSE Team will be required to submit a monthly report of its activities.</p>
Some of the managers are very rude; they may need more training in how to manage people.	<p>Policy of zero tolerance on verbal/physical abuse will be implemented at the factory. Policy will include sanctions against abusive behavior regardless of the rank or position of the guilty party. Training will be provided to workers, supervisors, and managers on good behavior and</p>



	how to work together as a team.
All Trade Union representatives should be elected by the workers.	Representatives are selected by workers themselves but the Chairman was appointed by the ACFTU. This practice is in compliance with the China Trade Union Law. The union will be briefed about its duties and pictures of the officers will be posted on the bulletin boards. Workers will also be briefed about the union, its officers, and functions.

## Conclusion

Impactt Ltd. conducted an independent investigation at the Taiway Sports factory in Dongguan, China and identified a number of issues that required corrective action. Taiway Sports management, with support from PUMA, developed a CAP in good order that addresses each of these issues. The factory has agreed to provide periodic verification of the implementation of the CAP, with an independent verification of the CAP after 12 months. This will be accessible on the FLA website. In view of these developments, the FLA has decided to formally close the Third Party Complaint filed by PUMA.